

Message Text

LIMITED OFFICIAL USE

PAGE 01 COPENH 01513 061412Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 XMB-02 NSC-05 STR-07 /119 W
-----125398 061433Z /45

P R 061136Z MAR 78
FM AMEMBASSY COPENHAGEN
TO AMEMBASSY PARIS PRIORITY
INFO SECSTATE WASHDC 6090
EC COLLECTIVE

LIMITED OFFICIAL USE COPENHAGEN 1513

ACTION USOECD PARIS, INFO FOR AMEMBASSY PARIS; USEEC ALSO FOR
EMBASSY

EO 11652: NA
TAGS: EGEN DA
SUBJ: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC) REVIEW
OF DENMARK MARCH 9
REF: COPENHAGEN 1442

1. WE HAVE NOT RECEIVED SECRETARIAT'S DRAFT REPORT BUT IN VIEW OF TIME FACTOR OFFER THE FOLLOWING COMMENT AS BACKGROUND FOR MARCH 9 REVIEW. (ADVANCE COPY OF EMBASSY'S RECENTLY COMPLETED SEMI-ANNUAL ECONOMIC TRENDS MAILED FOR LEVINE; SUMMARY OF REPORT IN REFTEL).
 2. 1977 SRUVEY SUGGESTED THAT A COMBINATION OF RESTRICTIVE DEMAND MANAGEMENT AND TIGHT INCOME POLICIES SHOULD BE MAINTAINED FOR SEVERAL YEARS FOR STABILIZATION REASONS BUT RECOGNIZED ALSO THAT THEN ESTABLISHED DANISH POLICY WAS FULLY IN LINE WITH THESE CONSIDERATIONS.
 3. DEVELOPMENTS IN 1977 SHOWED THAT WHILE POLICY WAS PURSUED CONSISTENTLY, ITS ACCOMPLISHMENTS FELL SOMEWHAT SHORT OF TARGET, PARTLY BECAUSE OF EXTERNAL FACTORS, OS THAT IT WOULD BE UNFAIR TO
- LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 COPENH 01513 061412Z

SAY THAT POLICY HAD FAILED. A FURTHER TIGHTENING OF DEMAND WOULD HAVE AGGRAVATED THE ALREADY SERIOUS UNEMPLOYMENT SITUATION, PARTICULARLY AS, CONTRARY TO OECD ANTICIPATIONS LAST YEAR, LABOR PARTICIPATION RATES INCREASED SHARPLY. DESPITE THE INCLUSION IN THE GOVERNMENT'S MEDIUM TERM ECONOMIC PROGRAM OF SELECTIVE EMPLOYMENT MEASURES, IT MAY BE CONCLUDED THAT THE GOVERNMENT HAS TACITLY ACCEPTED THAT UNEMPLOYMENT CANNOT BE MATERIALLY REDUCED

UNTIL THE BALANCE OF PAYMENTS PROBLEM HAS BEEN LARGELY SOLVED, HOPEFULLY BY THE EARLY 1980S.

4. SOME PROGRESS TOWARD REDUCTION OF THE CURRENT PAYMENTS DEFICIT WAS REGISTERED IN 1977 WHEN THE DEFICIT FELL TO \$1.5 BILLION FROM \$1.8 BILLION IN 1976. THIS WAS A SMALLER REDUCTION THAN HOPED FOR AND CLEARLY UNSATISFACTORY, NOT LEAST WHEN VIEWED AGAINST THE BACKGROUND OF INVENTORY DEVELOPMENTS. THE MAIN REASON FOR THE SOMEWHAT UNSATISFACTORY PERFORMANCE WAS, HOWEVER, THAT EXPORTS ROSE LESS THAN HOPED FOR. DOMESTIC DEMAND WAS NOT PERMITTED TO EXPAND AT ALL. CONSUMER DEMAND SHOWED ZERO GROWTH. RESIDENTIAL CONSTRUCTION DECLINED AS FORESEEN BUT WITH A HEALTHY TENDENCY TO STABILIZE AT A LEVEL ABOUT TEN PER CENT BELOW THE PREVIOUS AMBITIOUS INVESTMENT SHOWS A PERSISTENT TREND OF MODERATE INCREASE IN PLANTS AND MODERATE DECLINE IN EQUIPMENT WHICH WOULD SEEM UNLIKELY TO CHANGE IN 1978, APART FROM SEASONAL VARIATIONS. THE PUBLIC SECTOR STIMULUS WAS NOMINAL IN 1977 BUT MAY STRENGTHEN SLIGHTLY IN 1978.

5. IT MAY BE SAID THAT PRESENT DEMAND MANAGEMENT GETS VERY NEAR TO THE SENSITIVE BALANCING POINT WHERE UNEMPLOYMENT IS NOT UNDULY AGGRAVATED WHILE RESOURCES ARE BEING KEPT AVAILABLE FOR AN UPTURN IN DOMESTIC DEMAND ONCE IT MATERIALIZES. SOME FURTHER DECLINE IN CONSUMER DEMAND IN 1978 AND REDUCED AGRICULTURAL IMPORT DEMAND IN 1978 AND REDUCED AGRICULTURAL IMPORT DEMAND (BECAUSE OF A VERY GOOD HARVEST IN 1977) OFFER PROSPECTS OF SOME FURTHER REDUCTION IN THE CURRENT DEFICIT, BUT SOME BRIGHTER PROSPECTS FOR INTERNATIONAL TRADE WOULD OBVIOUSLY BE A HELP. THE DANES ARE LIKELY TO STRESS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 COPENH 01513 061412Z

THIS ISSUE DURING THE REVIEW.

6. WITH REGARD TO MONETARY POLICY, THE DANISH TREASURY'S RESUMPTION OF BUDGET DEFICIT FINANCING OVER THE SHORT-TERM BOND MARKET HAS APPARENTLY PROVIDED A VALUABLE TOOL OF MONETARY CONTROL. THE SIGNIFICANT AMOUNTS OF BONDS CIRCULATED HAVE ATTRACTED QUITE A BIT OF HOUSEHOLD MONEY AND HAVE TIGHTENED DOMESTIC LIQUIDITY CORRESPONDINGLY. IT MUST BE NOTED THAT THE GROWTH IN MONEY SUPPLY HAS BEEN REDUCED TO A LEVEL ON PAR WITH ECONOMIC GROWTH AT CURRENT PRICES, HENCE IS NOT PRESENTLY ADDING TO THE INFLATION. THE TIGHT LIQUIDITY AND HIGH MONEY RATES HAVE ALSO PREVENTED CAPITAL OUTFLOWS AND HAVE ENCOURAGED BUSINESS UTILIZATION OF FOREIGN CREDIT WHICH, TOGETHER WITH CONTINUED LARGE GOVERNMENT LOANS FROM ABROAD, HAVE BROUGHT FOREIGN EXCHANGE RESERVES UP SHARPLY. THIS IN TURN HAS MADE IT EASIER TO PROTECT THE KRONE AGAINST OCCASIONAL PRESSURES. DESPITE THE SEVERAL SMALL KRONE RATE ADJUSTMENTS, THE KRONE HAS, ON THE AVERAGE, ACTUALLY REVALUED SOMEWHAT. THE DANISH GOVERNMENT IS APPARENTLY WILLING TO ASSUME THIS COST IN ORDER TO HAVE THE STABILITY WHICH THEY ACCREDIT TO THE SNAKE COOPERATION. THE GOVERNMENT ALSO AVOIDS THE DETERIMENTAL EFFECTS A DEVALUATION WOULD HAVE ON ITS STABILIZATION POLICY.

7. THE INCOMES POLICY, INITIATED IN 1975 AND SUBSEQUENTLY AUGMENTED (6PC WAGE TARGET WAS LAID DOWN IN AUGUST 1976), HAS BEEN REASON-

ABLY SUCCESSFUL. FULL ADHERENCE TO THE WAGE TARGET IN 1977 WOULD, CONSIDERING CARRY-OVER EFFECTS, HAVE AT BEST RESULTED IN A YEAR-TO-YEAR WAGE RISE IN 1977 OF 9PC. THE ACTUAL RISE WAS 10 PCT AND IN THE SECOND HALF OF THE YEAR, WAGE DRIFT WAS NOMINAL. THERE WOULD SEEM TO BE GOOD PROSPECTS FOR FURTHER MODERATION IN 1978 BUT, BEYOND THIS YEAR, THE SITUATION COULD BECOME CRITICAL. LABOR CONTRACT RENEWALS IN THE SPRING OF 1979, TO BE NEGOTIATED FROM NOV 1978, COINCIDE WITH EXPIRATION OF THE PRESENT WAGE SUBSIDIES (PENSION FUND COMPENSATIONS FOR SUSPENDED WAGE ESCALATION). THE DILEMMA IS THAT THE GOVERNMENT FOR FISCAL REASONS CANNOT AFFORD TO EXTEND THESE SUBSIDIES WHILE INDUSTRY FOR COST REASONS CANNOT AFFORD TO ASSUME THE BACKLOG PAYMENTS TO WORKERS. UNLESS SOME SOLUTION IS FOUND, THE INCOMES POLICY WILL DISINTEGRATE AND THE DANISH COMPETITIVE POSITION WILL BE WEAKEND DRASTICALLY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 COPENH 01513 061412Z

8. WE SUGGEST THAT YOU RECOGNIZE REASONABLE SUCCESS OF MANAGEMENT DEMAND AND MONETARY POLICIES; APPROACH KRONE STABILITY ISSUE CAUTIOUSLY IN VIEW OF SENSITIVE DOLLAR ISSUE; AND ENCOURAGE EFFECTIVE FOLLOW-UP OF PRESENT INCOME POLICY AS ESSENTIAL MEANS TOWARD SOLUTION OF IMBALANCE PROBLEM VIA EXPORT GAINS.

DEAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, REPORTS, COMMITTEES
Control Number: n/a
Copy: SINGLE
Draft Date: 06 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978COPENH01513
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780100-0785
Format: TEL
From: COPENHAGEN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197803104/aaaadkbo.tel
Line Count: 142
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e939f8b7-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 COPENHAGEN 1442
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3110568
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC) REVIEW OF DENMARK MARCH 9
TAGS: EGEN, DA
To: PARIS
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e939f8b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014